

Numis Corporation

Q320 update

An encouraging update

Numis' update for Q320 was positive, reflecting both the need for equity funding in the market and the strength of the group's franchise as well as its ability to deal with current operating constraints. Subject to the market background in its final quarter, we now expect Numis to achieve a full-year result in line with or ahead of the high end of our previous scenario range.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/17	130.1	38.3	25.9	12.0	12.1	3.8
09/18	136.0	31.6	23.0	12.0	13.6	3.8
09/19	111.6	12.4	8.1	12.0	38.7	3.8
09/20e	135.0	24.6	17.5	12.0	18.0	3.8

Note: *PBT and EPS are on a reported basis and EPS is fully diluted.

Q320 update confirms increased activity

In its update for the three months to end June (Q320) Numis reported that revenues were materially ahead of both Q120 and Q220. Both Investment Banking and Equities performed well. Within Investment Banking, IPO and M&A activity remained at very low levels and the driver has been an increased number of capital markets transactions as companies strengthen balance sheets. Among more than 100 transactions raising c £14.5bn in the period, examples included capital raisings for ASOS (£247m), Beazley (£247m), Ocado (£657m) and Unite (£300m). On the Equities side of the business, trading volumes subsided from the peak seen with the onset of COVID-19, but this was more than offset by a continuation of the strong trading gains from the first half.

Background and outlook

London Stock Exchange data shows a substantial pick up in capital raisings over the last three months (see Exhibits 3 and 4) while the number of new issues remains subdued. The group reports a good pipeline of transactions and, subject to the market background in the final quarter, looks for second half revenues and profits to be ahead of the first half. Given the uncertain background, we had previously shown a range of scenarios rather than a point estimate for FY20, but, following the update, have adopted the high scenario (with revenue of £135m) as our estimate, noting that the outcome could be higher if the market background facilitates a continued strong pace of transactions.

Valuation

Numis shares have responded to higher levels of transactions and trade on a price to book multiple of 2.4x, above the 10-year average of 2.0x but still well below peak levels of around 3.0x during this period. From another perspective, based on a ROE/COE model, the current share price implies a market assumption that Numis can attain a sustainable return on equity of between 18% and 19%. This is above our current year estimate (14%) but in line with a five-year historical average.

Financial services

7 July 2020

Price 314p
Market cap £334m

Net cash (£m) end March 2020	95.3
Shares in issue	106.3m
Free float	75%
Code	NUM
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



Business description

Numis Corporation is one of the UK's leading independent investment banking groups, offering a full range of research, execution, equity capital markets, corporate broking and advisory services. It employs c 280 staff in offices in London and New York, and at the end of March 2020 had 209 corporate clients.

Next events

FY20 trading update	September 2020
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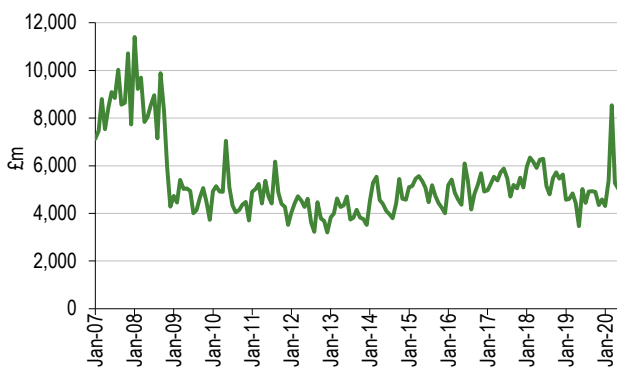
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Background and outlook

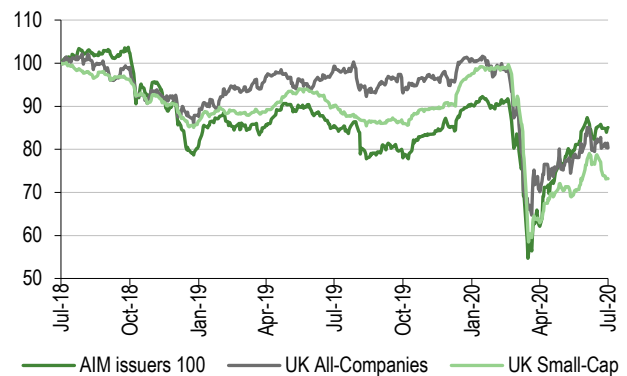
The first chart (Exhibit 1) shows how LSE order book volumes spiked with the onset of COVID-19 but have subsequently reverted closer to prior levels. Exhibit 2 illustrates the sharp fall and bounce back seen in UK equity indices in recent months. Calendar year-to-date, AIM issuers (CBOE Alternative UK 100) are down 6% while the CBOE All-Companies and Small Companies indices are down c 23% and 29%, respectively. Further volatility in index levels, potentially accompanied by higher trading activity, may well be seen as news related to COVID-19 and macroeconomic developments emerges.

Exhibit 1: LSE order book, average daily value traded



Source: London Stock Exchange (Main Market)

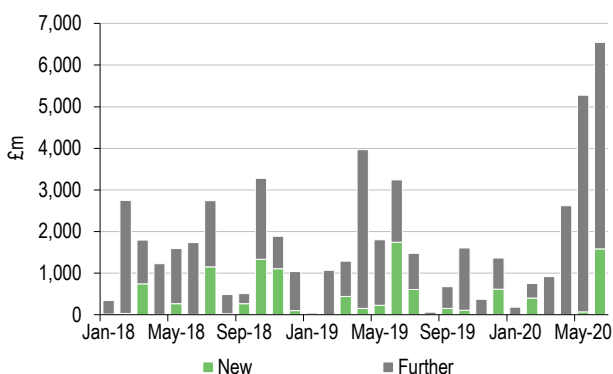
Exhibit 2: UK equity indices



Source: Refinitiv, CBOE indices

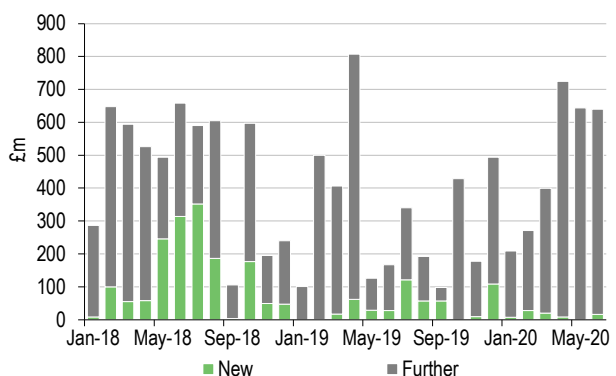
These developments are also set to influence the pace of equity market fund-raising. The next two charts look at trends in equity issuance on the London Stock Exchange Main and AIM markets. Money raised was relatively subdued last year, particularly on AIM. Both markets have seen a marked increase in further issuance in the last four months as companies have issued equity to recapitalise their balance sheets. The Q320 update demonstrated that Numis has played a full part in this activity.

Exhibit 3: Main Market money raised, new and further



Source: London Stock Exchange

Exhibit 4: AIM money raised, new and further



Source: London Stock Exchange

Numis reports a strong transaction pipeline but we note that at some point there could be a pause in capital markets transaction volume between the current phase of activity and the resumption of a more normal period of transactions as the crisis eases. Even so, Numis has demonstrated the strength of its franchise, which together with a strong balance sheet (end H120 cash stood at £95m) should allow it to exploit opportunities as they emerge.

Financials: New estimate for FY20

Our new estimates for FY20 are in line with the high scenario in the range that we set out in our last [note](#) in May. To put this in context, we show key numbers for our new estimates compared with the previous mid-range scenario in Exhibit 5. Further details are shown in the financial summary (Exhibit 7).

Exhibit 5: New FY20 estimate compared with prior mid-range scenario

£m unless stated	Previous mid-range scenario	New FY20e
Revenue	125.3	135.0
Other operating income (investment portfolio)	(1.9)	(1.9)
Total income	123.4	133.1
Non staff costs	(34.0)	(34.0)
Staff costs	(72.6)	(74.6)
Operating profit	16.8	24.5
Net finance income	0.1	0.1
Pre-tax profit	16.9	24.6
Tax	(3.2)	(4.7)
Net profit	13.7	19.9
EPS, diluted (p)	12.0	17.5
DPS (p)	12.0	12.0
Return on equity	10%	14%
Total cost/revenue	85%	80%
Total staff cost/revenue	58%	55%

Source: Edison Investment Research

Valuation

Given significant uncertainties surrounding the trading outlook for Numis and its peers we continue to focus on price to book value as a valuation measure at this point. Reflecting the high number of capital market transactions being undertaken, Numis shares have bounced back strongly from their recent low of 167p in March and year-to-date are up nearly 5%. They trade on 2.4x book value compared with a 10-year average of 2.0x and a five-year average of 2.2x. Using an ROE/COE model, the share price at time of writing implies the market is assuming a sustainable ROE of between 18% and 19%; this is above the 14% that our FY20 estimate suggests but similar to the five-year historical average.

Exhibit 6: 10-year history of the price to book value ratio for Numis



Source: Refinitiv, Edison Investment Research

Exhibit 7: Financial summary

£'000s	2015	2016	2017	2018	2019	2020e
Year end 30 September						
PROFIT & LOSS						
Revenue	97,985	112,335	130,095	136,047	111,610	135,000
Administrative expenses (excl. amortisation and depreciation)	(65,018)	(76,120)	(83,626)	(94,603)	(85,432)	(95,358)
Share based payment	(4,104)	(6,229)	(10,454)	(10,583)	(10,914)	(10,250)
EBITDA	28,863	29,986	36,015	30,861	15,264	29,392
Depreciation	(882)	(1,126)	(1,226)	(1,113)	(1,124)	(2,894)
Amortisation	(111)	(125)	(89)	(49)	(44)	(95)
Operating Profit	27,870	28,735	34,700	29,699	14,096	26,403
Net finance income	190	37	188	212	550	60
Other operating income	(1,978)	3,759	3,431	1,733	(2,210)	(1,904)
Profit before tax	26,082	32,531	38,319	31,644	12,436	24,559
Tax	(4,533)	(6,132)	(7,942)	(4,967)	(3,110)	(4,666)
Profit after tax (FRS 3)	21,549	26,399	30,377	26,677	9,326	19,893
Average diluted number of shares outstanding (m)	117.6	118.0	117.2	115.8	114.9	114.0
EPS - basic (p)	19.5	23.5	27.4	25.1	8.8	18.9
EPS - diluted (p)	18.3	22.4	25.9	23.0	8.1	17.5
Dividend per share (p)	11.50	12.00	12.00	12.00	12.00	12.00
NAV per share (p)	102.0	113.5	125.0	135.0	131.7	135.2
ROE (%)	19%	22%	23%	19%	6.6%	14.2%
EBITDA margin (%)	29.5%	26.7%	27.7%	22.7%	13.7%	21.8%
Operating margin (before GW and except.) (%)	28.4%	25.6%	26.7%	21.8%	12.6%	19.6%
BALANCE SHEET						
Fixed assets	6,724	5,522	6,147	8,215	6,832	9,671
Current assets	279,114	312,462	407,850	533,033	326,641	384,773
Total assets	285,838	317,984	413,997	541,248	333,473	394,444
Current liabilities	(170,319)	(188,895)	(280,371)	(398,112)	(195,319)	(248,940)
Long term liabilities	0	(12)	0	0	0	(2,736)
Net assets	115,519	129,077	133,626	143,136	138,154	142,768
CASH FLOW						
Operating cash flow	6,467	48,735	43,369	45,830	(2,748)	42,483
Net cash from investing activities	(3,632)	84	(198)	(1,014)	(77)	151
Net cash from (used in) financing	(17,510)	(19,580)	(36,359)	(29,035)	(24,646)	(26,967)
Net cash flow	(14,675)	29,239	6,812	15,781	(27,471)	17,391
Opening net (cash)/debt	(74,518)	(59,591)	(89,002)	(95,852)	(111,673)	(84,202)
FX effect	(252)	172	38	40	0	0
Closing net (cash)/debt	(59,591)	(89,002)	(95,852)	(111,673)	(84,202)	(101,593)

Source: Numis accounts, Edison Investment Research

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